

OKLAHOMA DEPARTMENT OF
COMMERCE – CDBG-DR
INTERNAL AUDIT
FOR QUARTER ENDING
SEPTEMBER 31, 2018



**OKLAHOMA DEPARTMENT OF COMMERCE
CDBG-DR INTERNAL AUDIT REPORT – SEPTEMBER 30, 2018**

October 31, 2018

Deby Snodgrass, Executive Director and Secretary of Commerce and Tourism
Oklahoma Department of Commerce
900 N. Stiles Ave
Oklahoma City, OK 73104

Ms. Snodgrass:

We are pleased to provide the attached Internal Audit Report for the period July 1, 2018 through September 30, 2018 with respect to the Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) program funding the Oklahoma Department of Commerce (ODOC) received.

Our services were performed in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA). However, our services did not constitute an engagement to provide audit, compilation, review, or attestation services as described in the pronouncements on professional standards issued by the AICPA, and, therefore, we will not express an opinion or other form of assurance with respect to our services.

In addition, our services did not constitute an examination or compilation of prospective financial information in accordance with standards established by the AICPA. We did not provide any assurance regarding the outcome of any future audit or regulatory examination or other regulatory action; nor did we provide any legal advice regarding our services; the responsibility for all regulatory and legal issues with respect to these matters resides with ODOC. It is further understood that ODOC is responsible for, among other things, identifying and ensuring compliance with laws and regulations applicable to ODOC's financial statement activities.

This report is intended solely for the information and use of ODOC and is not intended to be, and should not be, used by any other party, with the exception of oversight agencies for the performance of their oversight responsibilities.

The accompanying pages of our report include an executive summary as well as detailed observations, recommendations, and management's responses. Although we have included management's responses to our findings and recommendations, we take no responsibility for their sufficiency or the effective implementation of any corrective action. We appreciate the cooperation received from management and staff of ODOC during the performance of this internal audit.

Sincerely,

A handwritten signature in cursive script that reads 'Arledge & Associates, P.C.'.

Arledge & Associates, P.C.

Scope and Objectives of Our Services

The areas of focus for this internal audit included:

- Program policies and procedures
- Review and follow-up on June 30, 2018 quarterly internal audit report
- CDBG-DR expenditures
- Subrecipient monitoring
- Review of HUD communications

In order to evaluate the internal controls in relation to CDBG-DR requirements, the following were reviewed along with the procedures noted below:

- CDBG-DR Action Plan (including revisions)
- Prior CDBG-DR Quarterly Reports
- CDBG-DR Monitoring Handbook
- OK CDBG-DR Policy and Procedure Manual Updated June 07, 2018
- CDBG-DR Monitoring Document
- DR Contracts to be Monitored
- Previous Internal Audit Reports

The objectives of our services were to obtain information and review selected accounting records as applicable to determine whether any recommendations are warranted regarding the design and the effectiveness of established internal control policies and procedures.

Program Policies and Procedures

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Conducted interviews with appropriate management and personnel to gain an understanding of the internal controls and processes surrounding the CDBG-DR program.
- Obtained and reviewed policy and procedure manuals and documents as noted in the Scope and Objectives section above, noting whether they appeared to set out appropriate policies and procedures in relation to HUD CDBG-DR and State of Oklahoma guidelines.
- Reviewed the ODOC CDBG-DR website <https://okcommerce.gov/about/reports-planning-documents/cdbg-disaster-recovery/> to determine that policy and procedure documents are posted to the website for public transparency.
- Obtained and reviewed the HUD Monitoring Review Report dated September 28, 2018.

Findings:

Based on our discussions with key ODOC CDBG-DR personnel, review of policy and procedure documents as listed above, review of ODOC CDBG-DR website and review of the September 28, 2018 HUD Monitoring Review Report, it appears as though ODOC has proper internal control policies and procedures in place related to the CDBG-DR program. It is further noted that ODOC appears to be properly posting their policy and procedure documents to a website open to the public to meet the transparency requirements.

Recommendations:

We have no recommendations at this time.

Review and Follow-up on June 30, 2018 Quarterly Internal Audit Report

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Obtained and reviewed June 30, 2018 Quarterly Internal Audit Report noting the following open issues and/or recommendations:
 - ODOC is waiting on HUD to provide information related to the return of interest to HUD that subrecipients have earned.
 - ODOC is waiting on HUD to provide revised spreadsheets that reflect all the voucher adjustments.
 - ODOC should update the website to include the last quarter of 2017 and the first two quarters of 2018 for both the CDBG-DR Quarterly Reports as well as the Quarterly Contractor Reports.
 - Monitoring review spreadsheets should be reviewed in relation to the 22 fire truck CDBG-DR contracts.
- Discussed with key personnel and reviewed applicable support for the above noted open issues and/or recommendations.

Findings:

- Based on our procedures performed, at September 30, 2018, ODOC was still awaiting information and support from HUD in relation to return of interest and voucher adjustments.
- The ODOC CDBG-DR website is currently updated to include all available quarterly CDBG-DR Quarterly Reports as well as Quarterly Contractor Reports.
- Monitoring review spreadsheets related to 22 fire truck contracts have been reviewed.

Recommendations:

We recommend that ODOC continue to communicate with HUD in relation to the return of interest and voucher adjustment spreadsheets to determine the appropriate action(s) necessary to address and resolve these open items.

CDBG-DR Expenditures

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Obtained and reviewed policies and procedures related to expenditures/procurement.
- Discussed expenditures with key ODOC CDBG-DR personnel.
- Utilized OKGrants system to review a sample of expenditures.

Findings:

- All expenditures tested appear to be appropriately supported and in compliance with the applicable policies and procedures as understood through our procedures performed as noted above.

Recommendations:

We have no recommendations at this time.

Subrecipient Monitoring

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Obtained and reviewed policies and procedures related to subrecipient monitoring.
- Discussed monitoring policies and procedures with key ODOC CDBG-DR personnel.
- Reviewed monitoring and compliance service agreements with Deloitte & Touche, LLP.
- Contacted Gregory Eaton, Senior Manager with Deloitte & Touche, LLP for an update on the status of their monitoring activities as well as any potential significant issues they have noted in their monitoring activities to date.
- Reviewed CDBG-DR Monitoring Status Reports from August 31, 2018 through the date of this internal audit report.
- Selected two subrecipients, City of Oklahoma City and City of Norman, and reviewed their most recent audit reports (June 30, 2017 reports).

Findings:

Through the procedures noted above, we identified an open finding from HUD related to the monitoring of subrecipients. This open finding is discussed below in the HUD Communications section. We noted that ODOC has recently procured the services of Deloitte & Touche, LLP to help aid in meeting the CDBG-DR monitoring requirements. It was further noted that plans have been put into place to review all subrecipients within three groups. The first group includes projects related to mitigation and fire equipment which, as of September 25, 2018, all sites have been monitored. The second group includes projects related to infrastructure, housing and mitigation with an expectation that site monitoring visits will be completed by the end of November 2018. The third group includes projects related to the Oklahoma City and Norman projects which are expected to be completed by the end of January 2019. It was noted that as monitoring of the first group was not completed until the end of September, there were no communications received from Deloitte & Touche, LLP regarding any findings identified or corrective actions needed, thus no such reports were reviewed as part of this internal audit report.

Recommendations:

We recommend that ODOC continue to review the progress of Deloitte & Touche's monitoring activities to verify that timelines are being adhered to and that the requested processes, procedures, and checklists are being followed. We recommend that as Deloitte & Touche, LLP provides ODOC with any findings identified or letters of corrective actions needed, that ODOC address the issues timely with their subrecipients.

HUD Communications

Procedures Performed:

To accomplish the stated objectives, we performed the following procedures:

- Obtained and reviewed the HUD Monitoring Review Report dated September 28, 2018.
- Obtained and reviewed ODOC's response to the HUD Monitoring Report.

Findings:

During our review of the HUD Monitoring Review Report dated September 28, 2018, we noted four findings and one concern presented by HUD. These were stated in the report as:

- Finding #1: Internal Audit. The State has not provided for an internal audit function as required by the

March 5, 2013, *Federal Register* Notice.

- Finding #2: Grant expenditures are not properly allocated within the grant's DRGR Action Plan.
- Finding #3: Grant funds are not properly categorized within the DRGR Action Plan.
- Finding #4: Not all required contract provisions regarding procurements are provided.
- Concern #1: Grantee has not met the OPR submission deadline for the past two quarters.
- Open Finding from January 2017 HUD Monitoring Report: Subrecipient oversight function is inadequate.

The HUD Monitoring Review Report dated September 28, 2018 related to HUD's monitoring visit May 21-25, 2018.

Our internal audit noted the following related to the above matters:

- As it relates to Finding #1, ODOC has procured the services of an external accounting firm, Arledge & Associates, P.C. to perform the internal audit function for the CDBG-DR program. Internal audit procedures will be performed on a quarterly basis. The internal audit and any related recommendations will be issued in report format and communicated directly to the Executive Director and Secretary of Commerce and Tourism. Pending any further communication from HUD, this is expected to resolve Finding #1.
- As it relates to Finding #2, ODOC is currently in the process of working with the subrecipient to perform reconciliations of eligible costs under the appropriate categories within the DRGR Action Plan. Once this is completed ODOC will review the reconciliation to ascertain that it appears appropriately reconciled, and then will provide the documentation on to Celeste Washington, Community Planning and Development Specialist, HUD Disaster Recovery and Special Issues Division by the requested deadline of January 25, 2019.
- As it relates to Finding #3, ODOC has developed preliminary plans to address this finding. Due to the nature of the CDBG-DR system limitations, ODOC has and continues to try and work with HUD to determine the best plan of action related to this finding. The preliminary plans to resolve this finding are determined in order to achieve a resolution of the finding by the requested deadline of January 25, 2019.
- As it relates to Finding #4, ODOC has worked with Deloitte & Touche, LLP and there is a new fully executed Addendum 2 to the contract addressing this finding. This addendum has also been uploaded on the ODOC CDBG-DR website. Pending any further communication from HUD, this should resolve Finding #4.
- As it relates to Concern #1, ODOC continues to work towards improving its processes in order to meet the quarterly progress report submission deadline of no later than thirty days after each calendar quarter end.
- As it relates to the open finding from the January 2017 HUD Monitoring report, as noted above, ODOC solicited bids from entities in order to provide monitoring and compliance services related specifically to the CDBG-DR program. ODOC has procured the services of Deloitte & Touche, LLP in order to perform these. ODOC has worked with Deloitte & Touche to develop a plan, as discussed in the Subrecipient Monitoring section above, with the goal of having 100% of subrecipient sites monitored by the end of January 2019. It is noted that ODOC and Deloitte & Touche have developed a Monitoring Status Report to track the progress of the subrecipients monitoring. This report is being uploaded to the ODOC CDBG-DR website. Deloitte & Touche will, with ODOC staff to attend selected sites throughout the process, continue to work through their monitoring visits and will provide ODOC with any noted findings or corrective action plans as applicable for each site. Although no such findings or corrective action plans were received as of September 30, 2018, ODOC will plan to review these as they are received to work with the subrecipients towards a timely resolution.

Recommendation:

We recommend the following:

- In relation to Findings #2 and #3, we recommend that ODOC continue to maintain communications with the appropriate HUD representatives to continue to resolve these findings within the requested deadline of January 25, 2019.
- In relation to Concern #1, we recommend that key ODOC individuals create and/or maintain calendar notices and progress milestones that will aid in the timely submission of the quarterly progress reports. We further recommend that ODOC include within this progress plan a process reminder to upload the report to the ODOC CDBG-DR website immediately after the report has been finalized and submitted.
- In relation to the open finding from the January 2017 HUD Monitoring report, we recommend that ODOC continue to work with Deloitte & Touche to regularly track the progress of subrecipient monitoring and to continue with the plan as currently agreed upon with them. We further recommend that ODOC develop policies and procedures to address any findings or corrective action plans, including developing a plan of who will address each item with the subrecipient, who will be responsible for tracking the resolution of any such findings, as well as developing an anticipated time frame in which all such findings and corrective actions plans will need to be resolved.

November 5, 2018

Honorable Deby Snodgrass
Secretary of Commerce and Tourism
900 N. Stiles
Oklahoma City, OK 73014

Dear Secretary Snodgrass:

The CDBG-DR staff in ODOC Community Development Services (ODOC/CDS) has reviewed the Internal Audit Report prepared by Arledge & Associates, P.C. for the period July 1, 2108 through September 30, 2018. As you know, this is the first report submitted by the new Internal Audit firm.

ODOC/CDS concurs with the recommendations offered in the report and will continue to work with HUD to address and resolve any remaining issues.

Please let me know if you have any questions.

Sincerely,



Vaughn Clark

cc: Stacie Willis
Celeste Washington
Earl Cook